

Message Text

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R 061530Z APR 78
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TO SECSTATE WASHDC 0861
AMEMBASSY ROME
INFO AMCONSUL FLORENCE UNN
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C O R R E C T E D C O P Y - T E X T (P A R A 1 . L I N E 3)

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TAGS: ECON, EINV, EFIN, BBAK, IT
SUBJ: FIAT HOLDING GROUP ANNOUNCES FINAL RESULTS OF
1977 OPERATIONS

REF: A. TURIN A-06
B. 77 TURIN A-10

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1. SUMMARY. PRIOR TO END-OF-APRIL ANNUAL STOCKHOLDERS
MEETING, FIAT HOLDING GROUP ANNOUNCED GROUP S OVERALL
TURNOVER IN 1977 REACHED DOLS 13.4 BILLION, A 23.5 PER-
CENT INCREASE OVER 1976# OVERALL GROUP PROFITS WERE ANNOUNCED
AS DOLS 73.5 MILLION, DOWN SLIGHTLY FROM THE PREVIOUS YEAR
(ALTHOUGH BECAUSE OF DIFFERENT INTERNAL ARRANGEMENTS
BETWEEN COMPANIES UNDER HOLDING GROUP, YEARS CANNOT RELIABLY

BE COMPARED). DIVIDEND TO BE DISTRIBUTED FOR 1977 OPERATIONS IMPROVED SLIGHTLY, 150 LIRE FOR EACH SHARE IS THE SAME AS IN 1976, BUT ONE ADDITIONAL SHARE FOR EACH 100 SHARES ALSO ADDED IN TO SWEETEN SHAREHOLDERS TAKE, FIAT ALSO DECIDED TO ALLOCATE ALMOST DOLS 16 MILLION TO RESERVES, THUS INCREASING TOTAL RESERVES TO DOLS 245 MILLION. END SUMMARY.

2. FOLLOWING FIAT HOLDING GROUP BOARD OF DIRECTORS MEETING HELD MARCH 29, 1978 UNDER CHAIRMANSHIP OF FIAT PRESIDENT GIOVANNI AGNELLI, IAT RELEASED SHORT COMMUNIQUE PROVIDING GROUP S 1977 FINAL OPERATIONAL FIGURES THAT WILL APPEAR IN OFFICIAL FINANCIAL STATEMENT FOR PRESENTATION TO AND APPROVAL BY HOLDING GROUP STOCKHOLDERS AT ANNUAL MEETING AT END OF APRIL.

3. TEXT OF ANNOUNCEMENT GENERALLY CONFIRMS PREVIEW OF FIAT HOLDING GROUP S POSITIVE 1977 OPERATIONS AS FURNISHED BY AGNELLI ALONG WITH HIS "LETTER TO THE STOCKHOLDERS" DATED JANUARY 16, 1978 WHICH WE REVIEWED IN TURIN A-06.

FOLLOWING ARE ESSENTIAL 1977 RESULTS HIGHLIGHTED BY BOARD (AT LIRE 857/ONE DOL):

A. OVERALL HOLDING GROUP S NET (I.E., EXCLUSIVE OF INTRACOMPANY SALES WITHIN GROUP) TURNOVER FOR 1977 ROSE 23.5 PERCENT TO 11,450 BILLION LIRE (DOLS 13.4 BILLION) VERSUS UNCLASSIFIED

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9,270 BILLION (DOLS 10.8 BPLLPOM) I 1976. EXPORTS ACCOUNTED FOR OVER 42 PERCENT OF TOTAL NET 1977 TURNOVER COMPARED TO 33 PERCENT IN 1970. (FIAT ALSO NOTES THAT THE GROUP S EXPORTS NOW ACCOUNT FOR 8.5 PERCENT OF TOTAL ITALIAN EXPORTS AND 23 PERCENT OF ITALY S TOTAL MECHANICAL SECTOR EXPORTS.)

B. 1977 TURNOVER FOR GROUP S AUTOMOBILE SECTOR WAS 3,996 BILLION LIRE (DOLS 4.7 BILLION) VERSUS 3,675 BILLION LIRE (DOLS 4.3 BILLION) IN 1976. AUTO SHARE OF GROUP S TOTAL NET TURNOVER WAS 35 PERCENT IN 1977 COMPARED TO 65 PERCENT IN 1970.

C. OVERALL HOLDING GROUP PROFITS FOR 1977 WERE 63 BILLION LIRE (DOLS 73.5 MILLION) VERSUS 66.5 BILLION (DOLS 77.6 MILLION) IN 1976. PROFIT FIGURES (SOMEWHAT LOWER THAN HAD BEEN ANTICIPATED IN REF. A) WERE OBTAINED AFTER DEDUCTION OF DEPRECIATION FUNDS IN THE AMOUNT OF 184.9 BILLION LIRE OR DOLS 215.8 MILLION (OF WHICH 121.4 BILLION LIRE WENT TOWARD ORDINARY DEPRECIATION AND 63.5 BILLION LIRE WERE SET ASIDE FOR ADVANCE DEPRECIATION). IT SHOULD BE NOTED THAT TOTAL DEPRECIATION ALLOWANCES IN 1977 WERE LOWER THAN IN 1976 (275.7

BILLION LIRE OR DOLS 321.7 MILLION), BUT AS A RESULT OF
SPIN-OFF OPERATIONS INVOLVING THE ESTABLISHMENT OF SEVERAL
NEW ADMINISTRATIVELY INDEPENDENT COMPANIES WITHIN THE HOLD-
ING GROUP IN 1977, IT IS NOT POSSIBLE THIS YEAR TO MAKE AN
ACCURATE PROFIT/DEPRECIATION COMPARISON BETWEEN 1976 AND 1977.

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... 1976 AND 1977.

D. 1977 GROSS DIVIDENDS WILL BE SAME AS FOR 1976, I.E.,
150 LIRE (DOLS 0.175) PER ORDINARY OR PREFERRED SHARE OF
CAPITAL STOCK AFTER DUE ALLOCATION OF 3 BILLION LIRE (DOLS
3.5 MILLION) TO ORDINARY RESERVES AND 4.7 BILLION LIRE (DOLS
5.5 MILLION) TO DIVIDEND EQUALIZATION FUND AND TO PAID-IN
SURPLUS FROM PREVIOUS OPERATIONS.

IN ADDITION TO DIVIDENDS, HOWEVER, STOCKHOLDERS WILL BE

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ENTITLED TO OWNERSHIP OF ONE PREFERRED SHARE FOR EVERY 100 SHARES (ORDINARY OR PREFERRED) CONTROLLED, TO BE WITHDRAWN FROM HOLDING GROUP S OWN STOCKS PURCHASED DURING C.Y. 1977.

E. BOARD OF DIRECTORS DECIDED TO AUTHORIZE (SUBJECT TO STOCKHOLDERS APPROVAL) ADDITIONAL PURCHASE OF HOLDING GROUP S OWN STOCKS FOR A TOTAL VALUE OF 10 BILLION LIRE (DOLS 11.7 MILLION) TO BE DRAWN FROM SPECIAL RESERVES.

4. COMMENTS

A. ACCORDING TO LOCAL ECONOMIC OBSERVERS, CLOSER LOOK AT HARD FIGURES SHOWS THAT FIAT HOLDING GROUP STOCKHOLDERS WILL IN EFFECT BE RECEIVING NET TOTAL OF 163.20 LIRE (DOLS 0,190) PER SHARE AS AGAINST 150 LIRE LAST YEAR. ACTUAL MAKEUP IS INDICATED BY FOLLOWING CALCULATION: 135 LIRE NET DIVIDEND (I.E., 150 MINUS 10 PERCENT CORPORATE TAX) PLUS 16.70 LIRE BASED ON CURRENT STOCK EXCHANGE 1,670 LIRA VALUE PER SHARE (1,670 LIRE DIVIDED BY 100, I.E., ONE PREFERRED SHARE EVERY 100) PLUS 1.5 LIRE (I.E., 150 DIVIDED BY 100) DIVIDEND DERIVED FROM ONE NEWLY ACQUIRED PREFERRED SHARE WHICH, ACCORDING TO FIAT PROVISIONS, WILL BEAR INTEREST AS OF JANUARY 1, 1977.

B. FIAT S SLOW BUT SURE RETURN TO SATISFACTORY DIVIDEND DISTRIBUTION IS REVEALED BY SIGNIFICANT TREND RECORDED OVER PAST FIVE YEARS -- IN 1973 (LAST FAVORABLE RESULTS PRIOR TO BEGINNING OF ITALIAN ECONOMIC CRISIS) DIVIDENDS REACHED 120 LIRE. IN 1974, FOLLOWING A NON-PROFIT OPERATION, DIVIDENDS WERE REDUCED TO 30 LIRE PLUS THREE SHARES BELONGING TO THEN FIAT-CONTROLLED S.A.I. INSURANCE COMPANY FOR EVERY 1000 SHARES POSSESSED. IN 1975 AND 1976, A 100-LIRA DIVIDEND WAS DISTRIBUTED WHICH, HOWEVER, WAS DRAWN FROM RESERVES RATHER THAN FROM ACTUAL PROFITS ACHIEVED AS HAD BEEN THE CASE IN PREVIOUS YEARS.

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C. IN THE OPINION OF SAME LOCAL SOURCES, FIAT S MODERATE DIVIDEND DISTRIBUTION POLICY THIS YEAR IS CALCULATED TO DAMPEN STOCK EXCHANGE SPECULATIONS AT A TIME WHEN FIAT SECURITIES CONSTITUTE A RELIABLE ANCHOR FOR LOPSIDED ITALIAN STOCK MARKET. IN A YEAR WHEN GROUP S FINANCIAL ASSETS HAVE IMPROVED BY 338 BILLION LIRE (DOLS 394.4 MILLION AS NOTED IN REF. A), AND SATISFACTORY PROFITS APPARENTLY HAVE BEEN ATTAINED, FIAT HAS CHOSEN NOT TO TRIGGER OFF ANOTHER SURGE OF DECEPTIVE, PERIODIC

ENTHUSIASM ON THE STOCK MARKET. ACCORDINGLY, THE HOLDING GROUP HAS INSTEAD DETERMINED TO ALLOCATE TO RESERVES A TOTAL OF 13.7 BILLION LIRE (DOLS 16 MILLION) OUT OF ITS 1977 PROFITS, THUS INCREASING ITS RESERVE FUNDS TO 210 BILLION LIRE (DOLS 245 MILLION -- A FACTOR WHICH CONSIDERABLY STRENGTHENS HOLDING GROUP'S FINANCIAL SELF-SUFFICIENCY AT A TIME WHEN OTHER MAJOR ITALIAN COMPLEXES ARE CORNERED BY CREDIT SQUEEZE AND MUST CONSEQUENTLY SACRIFICE THEIR INVESTMENT PLANS.

D. FURTHERMORE, SUPPLEMENTAL DISTRIBUTION OF HOLDING GROUP PREFERRED SHARES TO STOCKHOLDERS IS CONSIDERED BY SAME SOURCES TO BE CLEVER EXPEDIENT WHEREBY FIAT IS RIDDING ITSELF OF NEARLY ALL OF THE PREFERRED STOCKS IT HAD BOUGHT ON THE STOCK EXCHANGE DURING 1977, WHILE GROUP ITSELF CONTINUES TO HOLD ITS HISTORICAL LEVEL OF SHARE CONTROL IN FIAT, CA. 30 PERCENT. IT IS FURTHER NOTED THAT PREFERRED SHARES THUS BEING DISPOSED OF WERE PURCHASED IN 1977 AT 1,384 LIRE (DOLS 1.61) AVERAGE PRICE EACH AND ARE CURRENTLY VALUED AT OVER 1,600 LIRE (DOLS 1.86) EACH -- WHICH INDICATES THAT STOCKHOLDERS ARE THUS ALLOWED TO GAIN SOME 200 LIRE (DOLS 0.233) PER PREFERRED SHARE. WHILE THIS TYPE OF UNUSUAL REMUNERATION IS NOT UNPRECEDENTED WITH FIAT, LOCAL OBSERVERS BELIEVE IT IS LIKELY TO BECOME EVEN MORE HABITUAL IN THE FUTURE, AS IT MAY SERVE TO DISTRIBUTE DIFFERENT STOCKS FROM FIAT-CONTROLLED SPIN-OFF ENTERPRISES WHICH ARE PROLIFERATING WITHIN HOLDING GROUP.

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...HOLDING GROUP.

E. OUR LOCAL CONTACTS ALSO EMPHASIZE IMPORTANCE OF CONTINUING FIAT TENDENCY TO PURCHASE OWN STOCKS. THIS SHOULD BE VIEWED AS AN APPROPRIATE MEASURE WHEREBY FIAT IS ATTEMPTING TO HOLD UP THE STOCK EXCHANGE VALUE OF ITS SHARES AND TO PROTECT IT AGAINST FUTURE HAZARDS. IN FACT, IN THE EVENT OF A STOCK MARKET DEPRESSION (AS ALREADY RECORDED IN 1977), STOCK PURCHASING WOULD ACT AS A SUITABLE "BUFFER" TO PREVENT FIAT SECURITIES FROM PLUMMETING BELOW TOLERABLE LEVELS.
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F. THE FIAT HOLDING GROUP WOULD APPEAR TO BE TURNING ITS STOCKS (ESPECIALLY PREFERRED ONES) INTO ATTRACTIVE SECURITIES FOR PRIVATE SAVINGS INVESTMENT, SOMEHOW COMPARABLE TO ITALIAN TREASURY BONDS. AS STATED BY OUR LOCAL CONTACTS, A ROUGH ESTIMATE INDICATES THAT A FIAT PREFERRED SHARE PURCHASED IN 1977 HAS ALLOWED ITS OWNER TO DERIVE APPROXIMATELY A 12 PERCENT INTEREST, IN ADDITION TO CAPITAL GAIN AS A RESULT OF INCREASED VALUE AT YEAR END. THIS LEADS LOCAL OBSERVERS TO CONCLUDE THAT, AS INTEREST-BEARING SECURITIES, FIAT PREFERRED STOCKS ARE GRADUALLY BECOMING AT LEAST AS APPEALING AS GOI BONDS AMONG SMALL PRIVATE INVESTORS.

G. A FINAL NOTE CONCERNS THE PERFORMANCE OF FIAT'S AUTOMOBILE SECTOR, THE FUTURE OF FIAT AUTO HEAD NICOLA TUFARELLI AND ATTITUDE OF NEW LIBYAN SHAREHOLDERS AFTER THEIR 16-MONTH INVOLVEMENT WITH IAT. PRESS SPECULATION HAS BEEN RAMPANT OVER PAST MONTH (DESPITE CONTINUED FIAT DENIALS AND ALSO DENIALS WE HAVE RECEIVED DIRECTLY FROM PARTIES INVOLVED) THAT TUFARELLI MAY BE REPLACED WITH FIAT'S STEEL DIVISION (TEKSID) HEAD FERDINANDO PALAZZO. PRESS SPECULATION ALSO NOTES THAT PERHAPS LIBYAN SHAREHOLDERS (CA. 13 PERCENT OR 33 MILLION SHARES OF HOLDING GROUP SINCE FIAT/LIBYA DEAL LAST DECEMBER, -- 76 TURIN 0431) ARE PUSHING FOR IMPROVED MANAGEMENT IN AUTO SECTOR. DIVIDENDS AS NOTED ABOVE PAID ON LIBYA'S 33 MILLION SHARES WOULD AMOUNT TO ONLY 1.5 PERCENT OF VALUE OF TOTAL LIBYA INFUSION OF CAPITAL INTO FIAT AT END OF 1976 (DOLS 415 MILLION), OR CA. THREE CENT PERCENT PROFIT BASED ON VALUE OF LIBYAN PURCHASE OF NEW FIAT SHARES CREATED

AT THAT TIME (LIRE 180 BILLION OR DOLS 204 MILLION). QUESTION
BEING ASKED IN PRESS IS WHETHER LIBYA WILL BE SATISFIED WITH
THIS RETURN OR WILL ITS TWO MEMBERS ON FIAT 15-MAN BOARD
PUSH FOR MANAGEMENT CHANGES IN A DESIRE TO IMPROVE EFFORT
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IN FIAT AUTO SECTOR GIVEN STILL REMAINING OVERRIDING
IMPORTANCE OF FIAT CAR PRODUCTION IN OVERALL GROUP
OPERATIONS.
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